

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2018-257-WS

IN RE: Application of Kiawah Island Utility,)	REBUTTAL TESTIMONY
Inc. for Adjustment of Rates and)	
Charges and Modifications to Certain)	OF
Terms and Conditions for the Provision)	
of Water and Sewer Service)	CRAIG SORENSEN

1 **Q. PLEASE STATE YOUR NAME.**

2 A. My name is Craig Sorensen.

3 **Q. DID YOU ALSO SPONSOR DIRECT TESTIMONY IN THIS CASE?**

4 A. Yes, my direct testimony was filed on January 31, 2019.

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. The purpose of this testimony is to address the South Carolina Office of Regulatory
7 Staff's ("ORS") recommendation of a 14% operating margin to calculate Kiawah
8 Island Utility ("KIU") revenues in this case and support KIU's request for a 14.5%
9 operating margin.

10 **Q. PLEASE SUMMARIZE THE TESTIMONY OF THE ORS REGARDING**
11 **OEPRATING MARGIN.**

12 A. As discussed in the Direct Testimony and Exhibits of Matthew P. Schellinger, II, the
13 ORS bases its operating margin recommendation on: 1) the utility's quality of service,
14 2) the utility's financial condition, and 3) the utility's operational performance. Mr.
15 Schellinger states "ORS recommends an operating margin of 14.00% based on KIU's
16 efficient operations, excellent customer service quality, and current financial

1 condition.” The recommended 14% margin is also consistent with the rates approved
2 in KIU’s previous general rate case.

3 **Q. WHY IS KIU’S REQUESTED OPERATING MARGIN MORE APPROPRIATE**
4 **THAN THE 14% RECOMMENDED BY THE ORS?**

5 A. The South Carolina Public Service Commission (“Commission”) should use a 14.5%
6 operating margin to calculate KIU’s revenue because KIU’s service quality, operational
7 efficiency, and financial stability have all improved since KIU was granted a 14%
8 margin in its last rate case, and a 14.5% operating margin is consistent with operating
9 margins granted by the Commission in recent proceedings.

10 **Q. PLEASE DESCRIBE THE IMPROVEMENTS IN KIU’S SERVICE QUALITY,**
11 **OPERATIONAL EFFICIENCY, AND FINANCIAL STABILITY SINCE IT**
12 **WAS GRANTED A 14% OPERATING MARGIN IN ITS LAST GENERAL**
13 **RATE CASE.**

14 A. One of the ways KIU has improved its quality of service over the past few years is
15 through the offering of additional payment methods for customers. As of January 2019,
16 over 14% of KIU customers were taking advantage of the company’s new credit card
17 payment option, compared to zero in 2015 before the program was offered.
18 Additionally, nearly 35% of customers made electronic payments (ACH/direct debit or
19 credit card) in January 2019, a 66% increase in the number of customers making
20 electronic payments compared to December 2016. KIU continues to be committed to
21 providing the utmost quality of service to its customers.

1 Upgrades to equipment, training, and staffing levels have allowed KIU to
2 increase its efficiencies in terms of both quality of service and operations. Examples
3 of this increased performance are provided below:

- 4 • The addition of a second 4" Godwin by-pass pumping system allows KIU to
5 respond to pump station emergencies more efficiently. This is accomplished by
6 providing a means of maintaining flows around the clock by utilizing automatic
7 float control capability without having to provide staff for manual pump operation.
8 This second pump allows for redundant pumping on sewage pump station by-
9 passes in addition to allowing a stationary unit at our primary SPS while the second
10 unit can remain mobile to service SPS during an extended power outage situation.
- 11 • Additional data points to the GIS system have increased the accuracy of our asset
12 locations, thereby increasing the responsiveness of staff for emergency water
13 system shut down tasks by providing in-the-field information.
- 14 • The addition of a 45KW trailer-mounted generator has increased our capability to
15 maintain SPS level during an extended power outage situation.
- 16 • The addition of a portable light tower and generator has increased the crew's safety
17 and efficiency in making night time repairs as well as providing an additional power
18 source for maintaining water levels in the single phase SPS during an extended
19 power outage situation.
- 20 • The upgrade of the 2002 CAT Backhoe to a 2018 Unit has allowed an increase in
21 the dependability of the excavation equipment to allow the staff to maintain the
22 distribution and collection system.

- 1 • The upgrade of the 2003 Vactron trailer unit has allowed an increase in the
2 dependability of the hydro-excavation work that is needed to make distribution and
3 collection system repairs.

4 Another way KIU has demonstrated improved operational efficiency
5 specifically since its last rate case is by achieving a reduction of over 26% in non-
6 revenue water, even as the company sold 10% more water to 5% more customers. The
7 percentage of total water that is categorized as non-revenue decreased from 8.7% in
8 2015 to 6.4% in 2018, which demonstrates improved operational efficiency and a focus
9 on environmental stewardship.

10 In terms of financial stability, as discussed in the Direct Testimony of Kirk
11 Michael, KIU's short-term construction loan was paid down in 2017 by SouthWest,
12 and a complete refinancing of the company was completed in May 2018. This
13 recapitalization reduced annual audit fees and locked in long-term interest rates at
14 historically low rates. The stability and low interest rates achieved through the
15 recapitalization benefit customers through lower cost of service.

16 **Q. HAS THE COMMISSION RECENTLY GRANTED HIGHER OPERATING**
17 **MARGINS TO OTHER WATER UTILITIES?**

18 A. Yes, the ORS's recommendation of 14% for KIU is less than those recommended by
19 the ORS and approved by the Commission recently for other utilities – such as Moore
20 Sewer and Palmetto Utilities, each of which were granted operating margins well over
21 14.5% -- and is below the appropriate level for a utility with the excellent customer
22 service, efficient operations, and financial stability of KIU. Mr. Schellinger, in

testimony, praises KIU for being "...a well-operated water and wastewater utility with an established record of providing quality service to its customers." He also describes KIU's service efforts as "practical and forward thinking" and states that "customers benefit from the Company's continued investments in infrastructure maintenance..." as well as from KIU's refinancing and recapitalization.

Q. WHAT IS THE EFFECT OF KIU'S REQUESTED RATE INCREASE, ADJUSTED FOR ORS'S RECOMMENDED DISALLOWANCES, ON KIU'S AVERAGE CUSTOMER?

A. The table below shows the bill impact for an average residential customer with a 5/8" meter using 11,000 gallons per month at both ORS's recommended 14% operating margin and KIU's requested 14.5% operating margin. The calculation of average bills incorporates all ORS adjustments to revenue requirement, including the amount of current rate case expense identified in ORS testimony. Note, however, that KIU intends to update its rate case expense cost amount at the time of the hearing.

Monthly Residential Bill @ 14% and 14.5% Operating Margin				
<u>Class</u>	<u>Meter Size</u>	<u>14.0% OM</u>	<u>14.5% OM</u>	<u>Difference</u>
Water	5/8"	\$84.99	\$85.70	\$0.71
Sewer	5/8"	\$35.65	\$35.93	\$0.28
Total		\$120.64	\$121.63	\$0.99

Q. SHOULD THE COMMISSION USE A 14.5% OPERATING MARGIN FOR KIU?

A. Yes. The margin is within the Commission's operating margin range, is commensurate with that granted to other utilities, and is reflective of the outstanding nature of KIU's quality of service, efficient operations, and financial stability.

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes, it does.**